Journal of Business and Economics, ISSN 2155-7950, USA
August 2014, Volume 5, No. 8, pp. 1320-1337
DOI: 10.15341/jbe(2155-7950)/08.05.2014/012

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Integrated Reporting: A Theoretical Perspective on This Critical Issue

Elisabetta Magnaghi[1,2], *Roberto Aprile*[3]

(1. Franco-Chinese Institute, Renmin University of China; 2. Economy and Management Department, University of Pisa, Italy; 3. Management Department, University of Bologna, Italy)

Abstract: Changes in accounting are the consequence of its social dimension (Hopwood, 1978) that leads to reflect the context in which it is adopted and the needs of the users of information, needs that evolves with the evolution of the society. "Accounting derives its social significance only indirectly through its ability to reflect and communicate underlying economic variables vital to effective decision making" (Zambon, 2002, p. 24). Since a multidimensional approach is becoming increasingly relevant both for the management of the entity and for its users, traditional accounting reporting is in some ways not sufficient to give a response to all the issues in which investors and other stakeholders are interesting in, in particular with reference to the value generation process. A possible response could be the Integrated Reporting, a recent innovation that is developing on an International level, based in particular on the idea of Global Reporting Initiative, Prince's Accounting for Sustainability Project (A4S), International Integrated Reporting Committee and the IRC of South Africa. These latest Organizations have issued a draft Framework for Integrated Reporting and other documents useful to understand the report and the reporting process. One of the main problems of the issue is that nowadays Integrated Reporting is more similar to an "aggregated reporting" than an Integrated Reporting. This is probably caused by the absence of a clear theoretical framework. Many theories could supply a support to Integrated Reporting, each one with its specific approach. In particular we will analyze the contribution of the following theories: Agency theory (Jensen & Meckling, 1976); Stakeholder theory (Freeman, 1984); Legitimacy theory (Suchman, 1995); *EconomiaAziendal*e (Zappa, 1927; 1950); Stewardship Theory (Donaldson, 1990; Donaldson & Davis, 1991). Some of these theories arise from the strategic management approach and other from the corporate governance literature, whereas *EconomiaAziendale* could be considered as a theory of the firm to compare with the more adopted one that considers the entity as a nexus of contracts. In some ways all those theories can contribute to explain why you can adopt Integrated Reporting. We find that *EconomiaAziendale* could be the theory of the firm that best fits with this kind of report and that the Stewardship Theory can supply the basis for an approach that can integrate and balance the need and requirements of investors, of other stakeholders, but, most of all, of the entity itself, in particular considering its needs of define a sustainable way to ensure its "going concern".

Key words: integrated reporting; agency theory; stewardship theory; sustainability accounting; EconomiaAziendale.

JEL codes: M48

Elisabetta Magnaghi, International Ph.D. of Business Administration, Economy and Management, Franco-Chinese Institute, Renmin University of China; Economy and Management Department, University of Pisa; research areas/interests: financial, management and social accounting. E-mail: elisabettamagnaghi@gmal.com.

Roberto Aprile, Economia e Commercio (Business Administration), Management Department, University of Bologna; research areas/interests: financial and management accounting. E-mail: roberto.aprile4@unibo.it.

1. A Change in the Information Needs…

Reporting, not only financial reporting, has changed over the years depending on the society needs but also on accounting needs, given its service activity, have to respond to such contextual changes.

> "Throughout its history, financial reporting has evolved continuously. As a service activity, the practice of accounting must respond to changes in the context in which it operates." (Beattie, 2000)

Today, beyond the concern for the company continuity, information on reporting the company activity meets new challenges, such as the environmental issue and social causes. Such aspects, which add to the growing velocity of changes in the globalized world, require always more attention.

Because of the involvement always narrower between society and companies, and of the growing importance of social and environmental responsibilities, the role of communication to third parties has become crucial. External information business has more than ever, the aim of not only communicate the past effects, but also the present and future effects of the business behavior. Business communication with third parties, traditionally realizes itself through financial reporting, compulsory and strongly regulated by accounting standards, which materializes in the form of annual reports.

Globalization, the new means of communication and now, a generalized crisis of confidence, have changed the game rules, and the companies' reputation, being more exposed to judgment, ends being more vulnerable.

> "Globalization, instant communications, organized civil society—and now a crisis in trust, have changed the rules of the game. Firms are being held to complex and changing sets of standards—from unrelenting webs of "stakeholders" who pass judgment on corporate behavior—to regulations, new and hold, than govern and often complicate everyday activities. In an ultra transparent world of instants communications, every step and misstep is subject to scrutiny. And every company with a brand or reputation to protect is vulnerable." (Eccles & Krzus, 2010)

Within the new globalized and even more unstable context, the traditional financial information is much more necessary, but not sufficient any more having increased in the last few decades, the perception of the business responsibilities and exponentially the requirements, in terms of quantity but above all, in terms of quality of the information directed outward. Besides, the new information technology enables, not only to reach any part of the planet, but also to modulate the return of such information depending on the needs and the requests[1].

Following a series of contextual changes, the traditional reporting model in grained in purely financial information, is put in question given its partial and incomplete nature.

> "[...] changes in the general environment, business practices, and business information technology, it is not surprising that the relevance of the traditional corporate reporting model is being called into question. Finally, the traditional model, rooted in financial information, is shown to be incomplete and partial when set against the broad range of financial and nonfinancial performance measures now widely accepted as useful indicators of corporate success." (Beattie, 2000)

Among the analysis that the business external information should allow, a crucial role is taken by the evaluation of the risks linked to the business activity, not only towards the shareholders but also towards the members of the society in which the company operates.

Today, the evaluation of the risks linked to social and environmental aspects is also essential, which is partially possible only for those companies which present a social and/or environmental budget report. Nowadays,

[1] Think of XBRL language. XBRL (acronym of Extensible Business Reporting Language) is a language based on XML used mostly in communication and e-exchange of accounting and financial information.

the social budget report and all the other pieces of information linked to the governance and socio-environmental impacts are in practice disjoined from financial accounting information. Such disjunction, along with the impossibility of getting detailed information depending on different requirements, and faced to other performances beyond the financial ones, often makes the annual reports unable to provide a complete picture of the company's health status.

> In the past, the typical annual report was a pretty bland and limited way of communicating with shareholders and other stakeholders. It was historically and focusing on the past. It was a static document, produced on paper and prohibiting the reader from further exploration or analysis. It dealt primarily with financial information. While essential financial data alone did not convey a comprehensive picture of corporate health. It was opaque. […] It was separate from the company's "Corporate Social Responsibility" or "Sustainability" Report, relegating these document to the minor status and preventing the integration of information about critical topics such as risk" (Eccles & Krzus, 2010).

1.1 … As a Consequence of an Enlargement of the Accounting Responsibility: Accountability

The changes, which took place in the social, political and economic fields, all along the history of mankind, not only have accompanied the accounting process in its evolution, but have been its main engine, bringing new knowledge and expanding the scenario of the accounting information. Accounting appeared much earlier than rules designed to regulate it, being the result of the human's need to own an information system that could be able to report the operating results of the economic activity (Pacioli, 1494).

The globalization phenomenon and the improvements in communication technologies give rise to new questions, challenges for new lines of research. In the accounting field, the doctrinal currents and their theories have emerged with the proposal of giving answers to various questions which have become apparent with the development of small businesses (Pacioli, 1494) and later, of industrialization (Paton in America, Besta, Schmalenbach and Zappa in Europe), and finally of the financial world (see: IAS/IASB, IIRC). Besides, Littleton (1953) declared that theory and accounting practices are inseparable. Changes in accounting are the consequence of its social dimension (Hopwood, 1978) that leads to reflect the context in which it is adopted and the needs of the users of information, needs that evolve with the evolution of the society. "Accounting derives its social significance only indirectly through its ability to reflect and communicate underlying economic variables vital to effective decision making" (Zambon, 2002, p. 24).

The modes and procedures of information processing and disclosure have become in the last decades, among the greatest achievements of mankind. Business information has not been preserved from such a revolution.

The economic development and the economic and financial information are profoundly interconnected, because all organizations both of economic and social nature, have taken such a complexity that their control would result impossible if it had not been based on an adequate information system, both internal and external.

The information that companies are asked to provide to third parties, are always more elaborate and as a consequence, more extensive as the companies have begun to provide information which refers to social and environmental impacts. The diversity of presentation formats and the lack of external verification of such information (Deegan & Rankin, 1996; Neu et al., 1998; Adams, 2004; mentioned by Fernandez & Larrinaga, 2005) represent a real handicap. The economic and financial information as a reporting resource, is becoming a real purpose for business; from a duty it has evolved into a wish of representation, from an opportunity to evaluate the governance, it has changed into opportunities for programming and planning (Ricci, 2004, p. 70).

Without communication, ethics and responsibility would spread neither internally nor externally of the company: values for individual managers would remain without becoming a corporate culture; they would also not reflect on the strategic orientation of the company (Ricci, 2004, p. 70).

From over fifty years, that is from the apparition of the corporate social and economic model (Freeman, 1984; Caroll, 1979), an additional responsibility has been given to the company, beyond the classical responsibility of maximizing the benefits (Friedman, 1967), the Corporate Social Responsibility; but mainly in the last decade have the companies begun to include in their annual reports, information of a non-economic or financial nature, but inherent to social responsibility (Whitehouse, 2006). The most advanced societies in that respect have indeed included in their management the processing of an annual report for sustainability, in which are collected any social, environmental and governance information, to be added to the budget, which includes all the compulsory economic and financial information.

In this context, it is possible to fit the recent introduction in an international scope, of the Integrated Reporting. Accounting information is still one of the main objectives for the legislator and ultimately, a large range of regulatory rules of the economic and financial information externally directed.

The financial capital is nonetheless, not the only resource used by the companies, and responsibility takes a wider meaning. To take the responsibility, it is necessary to report its own operations and this reporting need also to be responsible. In fact, both words “responsibility” and “reporting”, come from the Latin word *accomptare*, a form of “calculate” (calculation). In English, we use the word accountability, which translates in Italian, “responsabilità” and consists in reporting the actions, which are the responsibility of a given organization (Williams, 1978, p. 170, mentioned by Fernandez & Larrinaga, 2005, p. 228). These two aspects, responsibility and reporting, are heavily interconnected, not only etymologically but also under the profile of the current reality in which the corporate informative systems are inserted. According to this accountability principle, companies need to report to the shareholders about their financial investments through the information disclosed in the annual reports, but they should also report to the society on the use of the resources that the latter has entrusted to the company (Fernandez & Larrinaga, 2005, p. 228). In reality, the meaning of the word seems to go beyond the simple presentation of accounts, and includes not only the shareholders’ interests of verifying the correct use of the financial resources by the managers, but also the interests towards the society for the use of the resources not represented from the previous contributions. According to Gray et al. (1996), the nucleus of the information on sustainable development is based on such a principle. To enable an efficient evaluation of the corporate stewardship, the financial information next to the social and environmental information is not sufficient, but it is essential that the reporting process develop a holistic approach.

It seems that the accountability concept involves the major change for accounting in the 21st century, in the sense that it implies the recognition of a social responsibility of the accounting information. Some time ago, it was thought that the accounting techniques were neutral when confronted to such concern but unlike in the past, this field of study, which has assumed the characteristics of a science, is immersed in an interdisciplinary, dynamic, competitive and mutable environment. The accounting word cannot continue being indifferent to the major social, environmental and political problems which afflict the society at both local and global levels. The current state of crisis is maybe a clear implication. Gray et al. (1996, p. 38) were among the first ones to stress the deficiencies of financial accounting in that respect.

In each company, there should be an explicit and consistent coordination between mission, governance and accountability. The accountability concept is still little known and used in the study of public companies, but it is assuming a crucial importance in the field of corporate reporting.

Hinna (2008) underlines the importance of the accountability principle in the creation of tools with which the organizations that use collective resources, can meet their obligations to report their own performance to parties both inside and outside the organization. According to Monteduro (2005, p. 47), accountability is made of a set of actions which develops the social function to give accounts from an individual or organization to another individual or organization. Hinna makes a distinction between the accountability of numbers, which explains the amounts used and absorbed, and social accountability, which refers about the activity developed by the company and its social outcome. The accountability concept does not match with the concept of reporting: between these two concepts, there is a real hierarchy as presented in the following illustration.

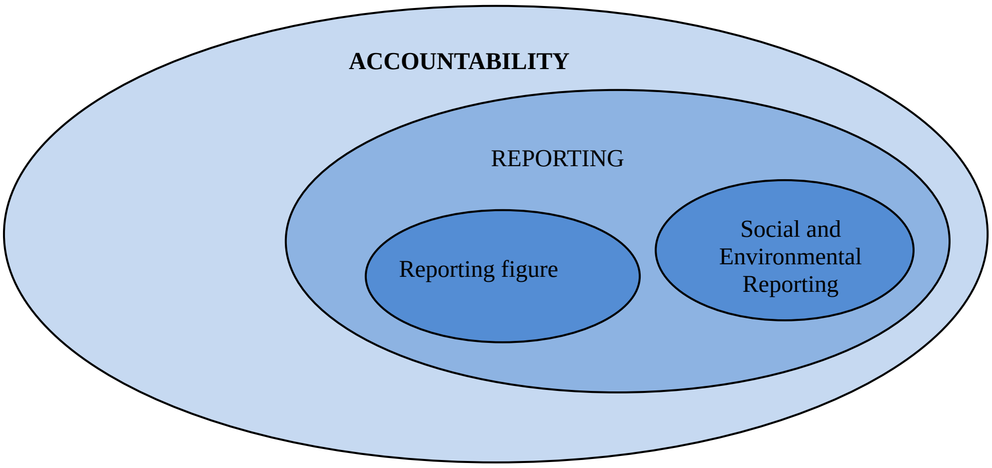

Figure 1 Hierarchy of Concepts (source: Hinna, 2008)

Hinna (2008) also builds a matrix on two analysis dimensions, with the aim of illustrating the different conceptions on which accountability can be based. The dimensions analyzed are the recipients of accountability (either internal or external) and the typology of results on which accountability relies on (economical, financial or meta-economical[2]).

	Economic and Financial Dimension	Social and Environmental Dimension
Internal Accountabiity	**Function:** Accountability on the internal financial performance	**Function:** Accountability on internal strategic objectives
	Tools: Management Accounting, Activity Based Costing, remuneration linked to performance, etc.	**Tools:** Balanced Scorecard, Management by Objectives, etc.
External Accountability	**Function:** Reporting on financial performance	**Function:** Reporting on effectiveness performance on socio-environmental impacts and its consistency with the mission
	Tools: Income Statement, Balance Sheet, Notes, etc.	**Tools:** Social Report, Environnemental Report, Mission Report, etc.

Figure 2 The Accountability Dimensions (source: Hinna, 2008)

The term accountability enables to better grasp the double function of the accounting study, like what tries to report and be responsible for the use of resources and to be able to externalize, both qualitatively and

[2] The author has included, among the meta-economic results, not only the social results but also the environmental ones.

quantitatively, the results of such an administration (Chen, 1975).

It is obvious to ask ourselves if the Integrated Report has been developed to respond to a natural requirement of accountability enlarged to the corporate reporting, but above all, consistent in its core. In addition, including the economic and financial dimension, and the social and environmental dimension, a close approach between tools of internal and external accountability, should be allowed.

A "managerial" logic which would consider to take into account the social and environmental aspects in the definition of the strategy in the long-run, not only to respond to logics of legitimacy but because they became essential elements, would seem the one which would best support the logic of integrated reporting.

The switch from a traditional single-agency vision to a multi-agency vision has moved the interest from the shareholders view to the stakeholders view. Among the managerial theories which incorporate such a switch, it would seem that according to the author, the stewardship theory could be able to enlarge not only the stakeholders' horizon and consequently, the agent's to which the management needs to report, but at the same time it could be able to consider principles of a cooperative and collective nature (Sciarelli, 2007, p. 20) in the definition of strategic objectives, and thus in the scope of Corporate Reporting.

2. Integrated Reporting

Integrated Reporting is characterized, at least in its objectives, by the deep completeness and ability to provide an overall information, which overcomes the sheer economic and financial dimension traditionally reported within the Financial Statements. Eccles and Krzus identify two main reasons that would lead the companies to implement an Integrated Reporting; the first one considers Integrated Reporting as a key element for taking into account sustainability, by the means of a strategy, which allows managing the risks and the opportunities of a sustainable society. The second one considers that the simplification of a unique message for all stakeholders in the form of a unique report would increase the transparency of the corporate disclosure.

> "There are two main reasons why companies should adopt One Report in their external reporting. The first is that it is a key element of taking sustainability seriously, once the company has created a truly sustainable strategy, by responding to the risks and opportunities created by the need to ensure a sustainable society. The second reason is that the simplification from One Report's single message to all stakeholders is a key element of improving corporate disclosure and transparency." (Eccles & Krzus, 2010, p. 146)

The same authors support the fact that for seriously taking into account sustainability, we need to understand the risks and the opportunities related to social and environmental issues, responding in a meaningful way.

> "Really taking sustainability seriously requires understanding the risks and opportunities created by environmental and social issues and trends and responding to both in a meaningful way." (Eccles & Krzus, 2010, p. 147)

Of particular importance is the authors' statement which considers Integrated Reporting as an extension of the Balanced Scorecard, which allows a better internal management and strategic implementation, analyzing both financial results and factors which produce it. From this perspective, Integrated Reporting unifies the subject area of external reporting with internal reporting.

The assertion "*what gets measured gets managed*" applies here. Just as the Balanced Scorecard provides for better internal management and implementation of strategy by focusing on both financial results and factors that produce them, one report adds the discipline that comes from external reporting to the discipline that comes from internal reporting (Eccles & Krzus, 2010, p. 148).

In fact, already in the field of accounting management, the limits of financial performance indicators have been recognized with the research of additional indicators, such as in the BSC case (Norton & Kaplan, 1996). Now, the external information is under accusation of lacking representativeness in some respects. Eccles and Krzus (2010, p. 148) show four potential benefits arising from the presentation of an Integrated Report:

- Greater clarity about relationships and commitments. The Integrated Reporting should begin to identify financial and ESG indicators, important for the organization and the strategy pursued to reach the referred objectives. The true essence of Integrated Reporting lies in the description of how the management considers the relationship existing between such financial and non-financial indicators.
- Better decisions. The result of the previous stage will be the production of better information for the decision-making. Kaplan and Norton, relatively to BSC, provide arguments and evidence of how a better measure could allow better management decisions. A high quality of external information would result from a high quality of internal information.
- Increase the commitment of all stakeholders. It is imperative that each stakeholder can have an integrated and holistic vision of how his own interests are related to the others' and to factors which contribute to the sought level of performance.
- As social responsibility and sustainability have assumed an important role, the management of reputation risks also represents one of the most important and the most difficult risks to handle.

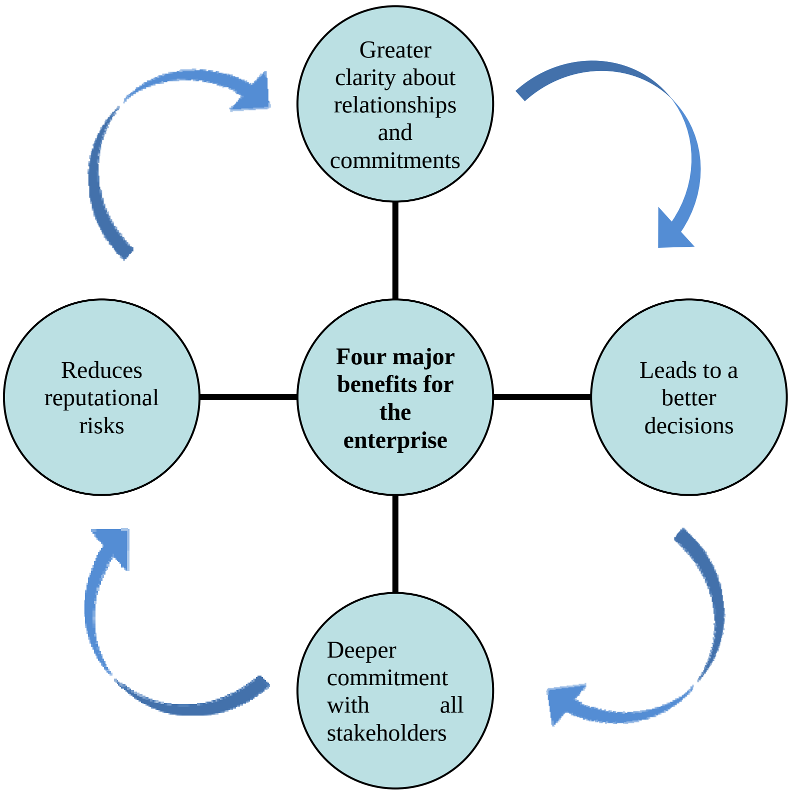

Figure 3 The Benefits of Integrated Reporting, Adapted by Eccles & Krzus (2010, p. 148)

There is no unique theoretical foundation for the Integrated Report and this, in some ways, is one reason of some inconsistencies or difficulties in interpretation. Next, let us try to verify the compatibility of this reporting model with the main theories of justification for corporate reporting, already mentioned in the part dedicated to the state of the art, with also a due reference to corporate economic culture, typical for Italian Financial Statement.

In particular, the following theories will be analyzed: the Agency Theory, the Stakeholders Theory, the Legitimacy Theory, EconomiaAziendale, the Stewardship Theory and finally the point of view of Business Economics is due to be recalled, even though it's not a theory, with particular reference to the corporate responsibility profile to provide useful information which such theories would assume.

2.1 Corporate Responsibility

Assuming that capital is not the only resource used by businesses, corporate responsibility takes on a broader meaning. According to Chen (1975), who performed a work in relation to the responsibilities of management (stewardship), we can distinguish two different types of responsibility: one that is linked with the realization of social welfare (social responsibility or primary) and one that aims to increase the immediate interests of the owner (economic, financial liability or secondary). Therefore, it would seem that the responsibility for the management of the company relates perfectly to the dimensions of accountability identified by Hinna. Indeed, in the years following the Great Depression, which began to spread a new ideology based on social responsibility coexisting with the traditional view that gives priority to the interests of the owner and the benefit of the shareholder. However, it is only since the sixties that social contract theories, and theories of stakeholders and legitimacy, representing the theoretical standard of CSR, started to spread.

2.1.1 Economic-financial Responsibility and Agency Theory

In the neoclassical model of the company, which is based on the agency theory, the economic and financial liability is carried in the pursuit of maximizing benefits and value creation for shareholders. As mentioned, the industrial development of business and financial markets, economic globalization and the growing importance of shareholders and investment funds have resulted, particularly in some countries, the separation between ownership and control, and therefore the separation tasks between the owner (principal) and the agent (manager).

The assumption is that there is an information asymmetry between the principal and the agent, and the latter, instead of pursuing the objectives of the client, pursues different objectives. Therefore, the agency theory requires the development of a financial economic information system, for those on the outside, which can enable control of the management by the agent and should aim to maximize the principal's profit. This paradigm includes theories which are based on neoclassical economic theory and relies on arguments related to markets. According to this paradigm, the social reporting is made to provide valuable information to shareholders and the financial markets, as it could affect earnings and share price of the company. Its primary user, which should be designed, is the investor.

The defenders of the free market system that does not impose on the undertakings should request information regarding their responsibilities, which are exclusively economic in nature. A point that is supported by the leaders of the objectives of corporate social responsibility can be seen as a misuse of shareholder contributions (Mathews, 1993, p. 9).

Economists who agree on this approach argue that the maximization of social satisfaction should be achieved by the free market. Among the main proponents of this school of thought, there are Adam Smith (1776) and Milton Friedman (1967). Undoubtedly, as Mathews points out (1993, p. 10), there are several arguments that support the existence of a corporate social responsibility in the free market system, and thus accounting for the social responsibility to reconcile, or at least make it consistent, with agency theory. Of these arguments, the following ones are essentially:

- The more information is available to the agents operating in the market, the more the free market will work.

- It has been empirically demonstrated that the existence of social responsibility by management can bring benefits to the profitability of the company[3].
- There is evidence that stock prices may vary depending on social information disclosed by companies[4].

The first of these arguments is directly linked with the limitation of the cost-benefit relationship of information, in the sense that the cost of processing information should be considered as an additional investment that will generate future benefits. Only if the expected benefits outweighed the costs[5] generated by the presentation of these data, this treatment would be undertaken.

The other two arguments are related to the well-being and profitability of investors, from the point of view of the benefits obtained. Entities that develop social activities and/or the environment by publishing the information on their relationships can be distinguished from those who do not.

2.1.2 Social Responsibility and the Transition from Agency Theory to That of Stakeholders

The theme of social responsibility stems from the idea that companies are not only accountable to the owners about their work, but also, by acting in a context that involves several parties (stakeholders), they should consider all those have specific interests. By taking into account these requirements, businesses with a single purpose (roughly: make profits) are transformed into entities that adapt themselves to different needs, even in contrast each other. In historical developments, the first interest to be taken into account appropriately, was the one of employees (as much for the influence on the economic and political literature, as in the legal sphere, related to the protection of the working world[6]), to gradually expand, with different impacts, to other stakeholder groups. Accordingly, different information needs have also developed that led to changes in reporting (there was a transition from the accounting concept to accountability).

Groups to which the information is intended, are not only shareholders and investors; information also ends up affecting employees, customers, the general public, governments and agencies, NGOs, etc. Therefore, a moral debate has opened regarding social and environmental relationships, such as about the companies' need to consider the environment in which they operate.

Therefore, the arguments justifying the communication of social and environmental organizations are used when this information is presented in order to explain the moral nature of the business, to consider the between the business and the company and legitimize the activities of the organization to the general public (Mathews, 1993, p. 9). Thus, these issues translate into different perspectives that are supported by different doctrinal currents and accounting practices. Theories that are based on this paradigm are considered moderate (Tilt, 1994, p. 49), already the *status quo* is not accepted or rejected in its entirety (Gray et al., 1987). The main theories that explain the existence of sociability devoted to social issues, according to this paradigm are: stakeholder theory[7], the theory of

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[3] For a discussion of studies that have dealt with the relationship between CSR and profitability, see: Griffin J. J. & Manon J. F.: "The corporate social performance and corporate financial performance debate: twenty-five years on incomparable research", *Business and Society*, 36/1, pp. 5-31.

[4] Shane and Spicer (1993), among others, have identified a relationship between socio-environmental and evolution of the share price.

[5] By contrast, in the various studies made in the North American capital market, there is a tendency for a greater demand for social information, which in most cases assumes a greater value of the companies that have or more of profitability. However, although there are cases in which there was found no relationship between the information of a social nature and profitability indicators of the entities (cfr.: Gray, Bebbington & Walters, 1993, pp. 58-75).

[6] Particular attention has been devoted to this subject in the literature and practice French (cfr.: Bardelli & Allouche, 2011).

[7] For details, see: Bowen H. R. (1995), *Social Responsibilities of the Businessman*, New York, Harper & Brothers.
Freeman E. (1984), *Strategic Management: A Stakeholders Approach*, Cambridge University Press.
Donaldson T., Preston L. E. (1995), "The stakeholders theory of corporation: Concepts, evidences and implications", *Academy of*

social contract[8] and the theory of legitimacy[9]. Freeman (1984) as any group has defined the concept of stakeholders or individual that can be affected by the achievement of business objectives.

Stakeholder theory is one of the theories that seeks to explain the practice of presenting social information, focused on the role it can play in relations between organizations, governments, individuals, associations and societies in general (Gray et al., 1996, p. 45). Gray et al. reported that from an organizational point of view, this theory is based on a model of accountability for all actors, be it normative, descriptive or the explanatory power they hold in the context of CSR; and includes the responsibilities of the company and the transparent nature of its activities.

A crucial element that the company can use to manage stakeholder relationships is precisely the information (financial, sustainability, or both) managed to gain the support and approval of corporate strategy from the stakeholders, without raising an objection. Voluntary disclosure is amply justified by the stakeholder theory and consequently the theory of legitimacy that is considered an appropriate means to maintain and develop relations between the various interest-bearing groups and the company.

Even Clarkson (1995, p. 106) considers that there are people or groups who have or claim to have, property, rights or interests with respect to an entity or activities, past, present or future of a company. These rights are the results of operations of the entity, which may have a legal or moral content, collective or individual.

Therefore, according to this theory, the presentation of social and environmental information responds to the existence of multiple users, different from the traditional and interested in the same thing. This assumption stems from the existence of a social contract between business and society, according to agency theory. Faced with the social contract theory, which states that the company (the economy) is regarded as the agent of a wide range of participants; the principal (the company), which has licensed the agent to be able operate within it, must comply with certain requirements and within certain limits. Thus, stakeholder theory can be seen as an extension of the theory of a social contract, from the perspective of agency theory.

According to Sciarelli (2007), stakeholder theory has a large instrumental and descriptive capacity, but a reduced prescriptive the same goes for the theory of legitimacy. The normative difficulties, which are the inability to create strong conceptual foundations that can help to achieve the objectives manager, also apply to activity reporting.

2.1.3 Legitimacy Theory

The Legitimacy Theory is often used to frame the phenomenon of social and environmental reporting. In fact, the company uses information to achieve social and environmental legitimacy facing the public (Fernandez & Larrinaga, 2005, p. 229).

The theory can be organized (and subdivided) into two levels, a macro (institutional level) and micro-enterprise (organizational level). The first can be defined as Legitimacy Institutional Theory and relates mainly to religions, governments, types of market management (like capitalism); while the second, also known as

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Management Review, Vol. 20, No. 1.

[8] For details, see:

Macneil I. (1980), *The New Social Contract*, Yale, University Press.

Sacconi L. (1991), *Etica degli affari, individui, imprese e mercati nella prospettiva dell'etica nazionale*, Milano, Il Saggiatore.

Donaldson T., Dunfee T. (1999). *Ties that Bind: A Social Contract Approach to Business Ethics*, Harvard Business Scholl Press.

[9] For details, see:

Dowling J., Pfeffer J. (1975), "Organizational legitimacy: Social value and organizational behavior", *Pacific Sociological Review*, Vol. 18, No. 1, pp. 122-136.

Guthrie J., Parker L. (1989), "Corporate social reporting: A rebuttal of legitimacy theory", *Accounting and Business Research*, Vol. 19, No. 76, pp. 343-352.

Lindblom C. K. (1994), "The implications of organizational legitimacy for corporate social performance and disclosure", paper presented at the *Critical Perspectives on Accounting*, New York.

Strategic Legitimacy Theory for "organizations", conceived in the light of the Italian doctrine like "aziende" or internationally like "entities".

The process of legitimation is the process by which an organization seeks approval or to avoid a penalty by the groups of which the company is formed (Kaplan & Ruland, 1991, p. 370), often trying to establish a congruence between values shared by society in general, and their behavior (Mathews, 1993, p. 350).

The concept of community (such as legitimation), proves to be wide, even in this case we can identify the most important actors, and focus primarily on these[10].

As can be seen, therefore, the legitimacy management also involves managerial aspects, managing legitimacy as a resource designed to achieve a specific goal (Suchman, 1995, pp. 575-576)[11]. Although the desire for legitimacy may be a factor that can grow to prepare an Integrated Reporting, at least as long as the document is not required, the legitimacy theory is not a theory that can take into account the assumptions underlying this type of reporting.

2.1.4 In the Light of the Italian Doctrine Accounting: *EconomiaAziendale*

Integrated Reporting cannot find a source directly in the field of "economiaaziendale"[12], at least not in the original conception of the latter. It dates back to a period of history where this type of reporting was inconceivable (Zappa, 1927), as much for the types of companies present at the time, as for the historical context in which they operated. Despite this, there may be many points of contact between the logic underlying Integrated Reporting and "economiaaziendale"[13].

The object of the study "economiaaziendale" is now (azienda), which can be defined and analyzed from different angles which have given place in Italian literature, to approaches with a common matrix, but partly different. Among the most relevant in the identification of a possible framing logic underlying the Integrated Reporting, is found the institutional approach[14] and the systemic approach[15].

This definition is apparently open, because it does not specify what human needs, or classes, are attributed to it. However, its fulfillment was found in the fact that the company is assigned of a social objective, which should go beyond the simple meeting of the needs of the property to the satisfaction of the needs of the community[16]. This definition highlights an aspect that is important for us: the company does not have a single objective linked to the revenue side (which could be the maximization of profit), but also a social goal. It should be noted in particular that the objective is not subordinate to the first in terms of relevance, and it has equal dignity.

No less important is the definition of business-society made later by Zappa, in 1957:"The company is a financial institution destined to endure, for the satisfaction of human needs, place orders and continuously

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[10] A similar approach can be found in Hybels (1995, p. 243).

[11] Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Cfr.: Matthew V. Tilling, 2004, *Refinements to Legitimacy Theory in Social and Environmental Accounting*, Commerce Research Paper Series NO. 04-6.

[12] "Economiaaziendale" can be considered as a theory of the firm to compare with the more diffused International one considering the firm as a nexus of contracts.

[13] See S. Signori e G. Rusconi, "Ethical thinking in traditional Italian EconomiaAziendale and the stakeholder management theory: The search for possible interactions", *Journal of Business Ethics*, 2009, 89, pp. 303-318, in which it is carried out in-depth analysis of the contact points and specificity of economic theory and the theory of corporate stakeholders.

[14] Zappa, 1957, Commons (1934) and Coase (1937).

[15] Even the organismic assumes great importance and shows how many of the stages of life of the company are similar to those of living organisms. It also highlights how the company is in turn part of larger organisms and thus it contributes to the health or not.

[16] The presence of the economic and social is recovered and highlighted by the students of Zappa. For example, Onida P. (1961, p. 1); Amaduzzi A. (1936, p. 19; 1963, p. 40; 1971, p. 108); Masini C. (1974, p. 12). To put the historical context in which the "economiaaziendale" has found development, also shows that at the legislative level, the labor legislation was included in Book V concerning the Company, in order to highlight how companies and workers there was a communion interest and not a contrast.

coordinate production or the purchases and consumption of wealth" (Zappa, 1956, p. 37). This definition contains a fundamental point of the economic and social dimension of the company. But it contains another element that is particularly important: to understand its sustainability. Hence the need to pursue the above objectives, and to ensure their long-term survival. If we pay attention, these are in fact the basis of Integrated Reporting, characterized by economic anchoring, a social dimension, and in particular the need to highlight the creation of value in the medium and long term. All this is in order to ensure the survival and prosperity of the company, which may then continue to meet both objectives.

It is obvious that all these aspects require a complete system and integrated (holistic) analysis that can take into account all the interactions that can be generated and cannot be represented by the economic dimension of financial accounting. This leads to the requirement for the definition of an integrated reporting system, which aims to improve business management and even the establishment of an integrated report in order to maximize communication with all interested parties.

2.1.5 In the Light of the Stewardship Theory

Donaldson & Davis (1989) both prominent experts in organizational behavior, have developed the Stewardship Theory, inspired by philosophy and psychology. The theory states that the manager would take a greater utility from a cooperative, pro-organizational and collectivistic behavior (Bucholtz, Brown & Shabana, 2008, p. 330) rather than individualistic one, trying to achieve the organization's goals, considered as an entity.

> "Stewardship Theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals." (Davis, Schoorman & Donaldson, 1997, p. 21)

The Stewardship Theory, in most of the researches, has been in contrast with the Agency Theory, regarded as an inferior theory (Davis, Schoorman & Donaldson, 1997). The authors draw up a table that compares the Agency Theory and Stewardship Theory through some personal characteristics, from a psychological and behavioral point of view.

As mentioned above, the Stewardship Theory defines those situations in which the activity of the manager is not motivated by personal goals but in line with the objectives of the owner.

The Integrated Report identifies six types of capital, considering that the company operates not only with financial resources, but also because of social resources, environmental, manufacturing, etc. relational. Starting from this assumption, one is no longer in the presence of only one type of main, but of different types, that connect to the different nature of the resources used by the enterprise.

Therefore, the manager will have to implement policy that will allow them to maximize the utility function that optimizes the balance between the needs of different mains to which it is accountable. Consequently reporting should also adapt to this perspective.

The Stewardship Theory would allow, to go beyond the weak law of the Theory of Stakeholders and the Theory of Legitimacy, and to overcome the conceptual limitations of the Theory of Agency Agreement, as the relationship with the principal is radically different, since it is based on trust rather than control. These limitations, according to Sciarelli (2007), concern the attention on only the interests of shareholders, and the recognition of a purely economic motivation. According to the same author, the most important differences between the two theories concern the reasons that stimulate the manager:

- Extrinsic to the Agency Theory as related to economic stimulus with little connection to the organization as an entity.

● Intrinsic to the Stewardship Theory at the base there are also social reasons, and a kind of identification with the organization's values.

	Agency Theory	**Stewardship Theory**
Model man	Economic man that maximizes the personal utility	Personal satisfaction by maximizing the utility function if the organization
Behaviour	Selfishness	Collectivist serving
Psychological Mechanisms		
Motivation	Need to lower order (economic, psychological, security)	Need for higher-order (personal satisfaction, success, growth)
Social comparison	Other managers	Principal
Identification	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, rewarded	Personal (competent, contact person)
Situational Mechanisms		
Managerial Philosophy	Control-oriented	Oriented commitment and involvement
Risk oriented	*Controlled Mechanisms*	*Confidence*
Horizon	*Short term*	*Long term*
Objectives	*Cost Control*	*Improved performance*
Cultural Differences	Individualism	Collectivism
	Elevated Hierarchy	Low Hierarchy

Figure 4 Agency Theory vs Stewardship Theory (Source: Davis, Schoorman & Donaldson, 1997, p. 37)

The author considers such a theory (according to which managers seek to maximize the utility function of the different stakeholders not only motivated by economic and financial reasons) that best helps to integrate environmental and social issues in the strategy, which is vital to reporting an integrated way (Magnaghi, 2013).

> "According to stewardship theory, the behavior of a steward is collective, because the steward seeks to attain the objectives if the organization." (Davis, Schoorman & Donaldson, 1997, p. 24)

Stewardship Theory in the best interests of the entire organization stands on the individual interests of the parties concerned, through a cooperative behavior considered more useful.

Thus, according to this theory there seems to be a close relationship between the organization's success and the satisfaction of the principal, bringing the manager to have a behavior centered on maximizing the performance of the company as a whole, regardless of the objectives of owners only. The need for the survival of the organization remains, only changes the way in which this objective is pursued persist and consequently the manner in which it is reported.

3. The Concept of Stewardship in the Reporting

Birnberg (1980), quoted by O'Connell (2007), traces the evolution of stewardship accounting, identifying four key stages:

- Pure custodial period, in which the agent (servant) is simply required to maintain the integrity of the resources entrusted to it and keep it intact.
- Traditional custodial period, in which the agent must better manage the tasks that are entrusted to be highly structured and therefore easy to communicate. In both periods, the classic balance sheet has more than enough information for the principal.
- Asset utilization period characterized by increased autonomy of the agent whose activities are less structured due to the increased uncertainty in the economic environment. The only balance sheet is no longer sufficient to meet the information needs of the principal and consequently show the income statement.
- Strategic stewardship period in which the agent has a high degree of flexibility in its choices.

In this period, the stewardship accounting evolves, inching closer and becoming synonymous with the concept of accountability. Chen (1975), drawing on the Statement No. 4 the Accounting Principles Board (1970, p. 18) makes a classification of the facts related to the external accounting into two categories, based on the resource flows and the corresponding obligations:

(1) Exchanges (exchange), i.e., the mutual transfers between the company and other entities;

(2) The non-reciprocal transfers (non-reciprocal transfer), i.e., transfers in one direction.

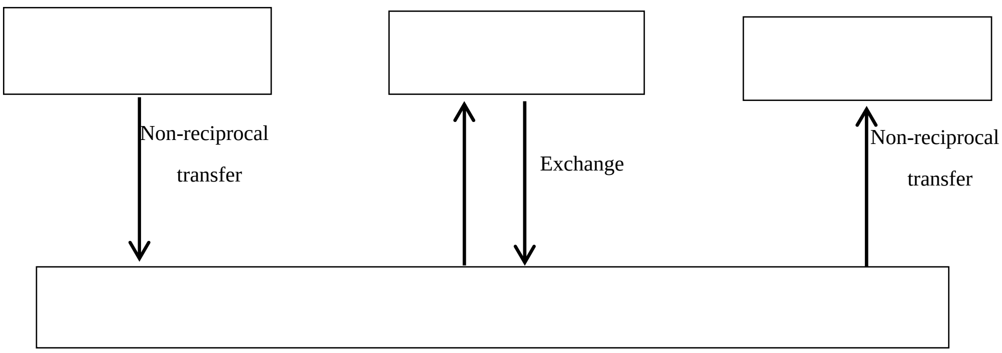

Figure 5 Facts Related to the External Accounting (Source: Chen, 1975)

These two types of accounting events, according to Chua (1975) reflect the dual role assumed as manager (steward) by the manager. On one hand assumes the role of control of resources in a non-reciprocal transfer by external sources and resources arising from business management, to external beneficiaries, to the other leaders in the management of the resources entrusted to it in the context of exchange transactions with other entities and who should make a profit.

Then, starting from the difference between resource ownership and resources given in use, Chua stated that social responsibility would be the first responsibility that falls on the manager as steward of the resources transferred in a non-reciprocal way. Therefore, the performance of the managers should be evaluated in terms of profit for fulfillment of social objectives.

3.1 From Classical to Modern Design or Management of Stewardship Theory

Some authors make a distinction between the researches related to the Stewardship Theory in two strands. The Traditional Stewardship Theory, in which managers are stewards who must try to protect the interests of stockholders (Grossman & Hart, 1980; Linn & McConnell, 1983; cited by Suleyman Gokhan Gunay, 2008, p. 13) that the maximization utility for stockholders is in fact the utility maximization for stakeholders (Davis, Schoorman & Donaldson, 1997, cited by Suleyman Gokhan Gunay, 2008, p. 13).

The Modern Stewardship Theory is based on an alliance of principles including a commitment to the company, the integration of shared interests, the emphasis on long-term perspectives, the realization of synergies for creating long-term value. In this theory, there is the existence of a dynamic balance between the interests of the parties recognizing that not every decision qualifies for all parties in the same way and in the long term, there is a relationship of interdependence among stakeholders.

> "The principles of Modern Stewardship Theory, based in a covenantal approach are commitment to society, integration of shared interests, emphasis on long-term perspective, achievement on synergy and creation of long term economic wealth. In a modern stewardship theory, there is a dynamic balance among the interests of stakeholders who recognize that not every decision can benefit all parties equally and that a long term interdependent relationship exists among stakeholders." (Suley Gokhan Gunay, 2008, p. 18)

This theoretical vision fully justifies the development of an Integrated Report.

> "An Integrated Report displays an organization's stewardship not only of financial capital, but also of the other "capitals" (manufactured, human, intellectual, natural and social), their interdependence and how they contribute to success. This broader perspective requires consideration of resource usage and risks and opportunities along the organization's full value chain." (Towards Integrated Reporting, p. 6)

We can say that the Modern Stewardship Theory cannot be separated by a vision of organization based on the Entity Theory, which considers the company separate and independent from its owners (it is opposed to the Property Theory, which considers that the company cannot be considered separate from its owners). The Entity Theory together with the Property Theory are among the most important types of Equity Theories (Chen, 1975). The Entity Theory demystified the role of owners: managers must consider the interests of the latter as well as all the other parties in the conduct of business management. Consequently, even the reporting enterprise should follow the same vision in the process of implementing an integrated reporting.

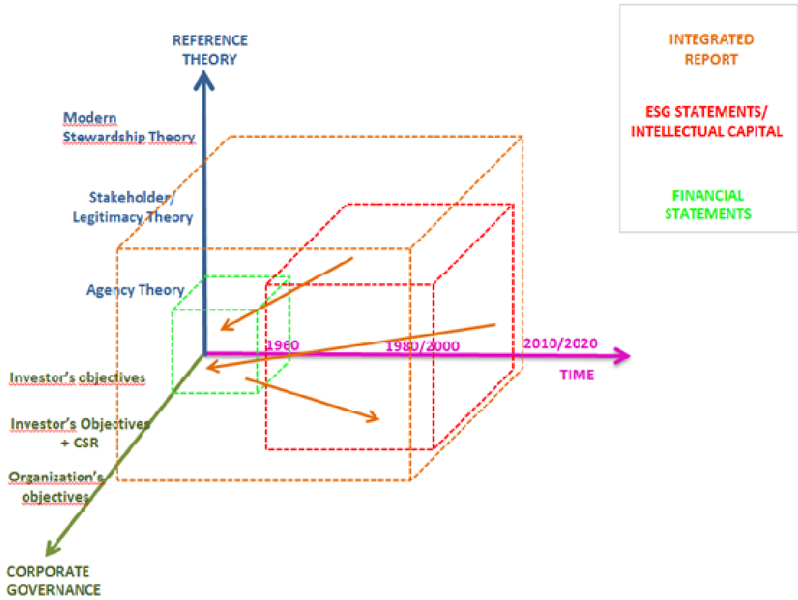

Figure 6 Reporting's Evolution Theories (developed by authors)

4. Conclusions

In the light of the guidelines of the framework developed by the IIRC and the objectives proposed, the theory that best fits with the Integrated Reporting would seem to be Stewardship Theory, in its modern sense. From this there follows a governance that gives priority to the objectives of the organization, seen as a balance of resources, tangible and intangible, financial and otherwise, used directly or indirectly by the exercise of their duties. Such a theory would have an impact on the activity of reporting and it would seem that it can best meet the increased need for accountability in recent decades and therefore would justify a type of integrated reporting.

Chen (1975) referring to Freze & Mautz (1972) states that financial reports are prepared to judge the management of managers and, therefore, it would seem logical that these reports can have a better grasp on the impact of social and environmental performance of the financial aspect and vice versa, in order to better judge the performance of these as part of the creation of long-term value for the organization in its entirety.

The term seems to assume accountability in recent years as a social connotation, not only limited to economic aspects (Ijiri, 1975, 1983; Gray et al., 1988), supporting the interests and information needs of society in general. Consequently, the corporate information should also adopt a social orientation (Beckett & Jonker, 2002)[17].

This aspect of the accounting would seem definitely related to the stewardship function of accounting. In fact, the terms accountability and stewardship are often used interchangeably, and Robert Hertz, chairman of the FASB, proposed that the term accounting replace the term stewardship within the elaboration of a framework that should close the gap between the IFRS and U.S. GAPP.

Stewardship accounting is not new, even in Anglo-Saxon literature it is considered as one of the main functions of financial reporting. Therefore, it would seem that diminishing the importance of this function of financial reporting would also affect accounting activities having a major impact on the future development of the unexpected and non-financial reporting, first socio-environmental.

In the light of what has been said, a current inconsistency and one that is hotly debated, is the proposition of the IASB, to relegate the objective of stewardship/accountability to a lower level than that of utility in decision-making. Therefore, the international regulatory accounting would seem to favor once more investors in taking their decisions for the allocation of financial resources, unlike the basic purpose of the IIRC.

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[17]This aspect is already present in the EconomiaAziendale literature, in which the azienda assumes a social function and has the necessity to last over time (as a consequence it has the necessity to consider the needs of the different subjects in some ways involved).

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